

Message Text

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PAGE 01 MEXICO 06745 071052Z

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INFO AMCONSUL TIJUANA

AMCONSUL CIUDAD JUAREZ

AMCONSUL NUEVO LAREDO

AMCONSUL MATAMOROS

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EO 11652: N/A

TAGS: EGEN MX

SUBJECT: THE BORDER ECONOMY

1. THIS CABLE IS IN RESPONSE TO DESK'S REQUEST FOR A ONE PAGE BRIEFING PAPER ON BORDER ECONOMY FOR IPU MEETING.

2. THE BORDER ECONOMY PER SE CONSISTS OF TOWNS ON THE U.S. SIDE SELLING MANUFACTURED GOODS TO MEXICANS AND MEXICANS SELLING SERVICES TO U.S. RESIDENTS. SIX MEXICAN CITIES ALONG THE U.S. BORDER HAVE POPULATIONS IN EXCESS OF 250,000. TIJUANA IS THE FASTEST GROWING CITY IN MEXICO. TWO OF THE OTHER THREE FASTEST GROWING MEXICAN CITIES ARE ALONG THE U.S. BORDER. THE ECONOMIC TIES BETWEEN THE BORDER CITIES AND THE U.S. ARE STRONGER THAN BETWEEN THESE CITIES AND THE INTERIOR OF MEXICO. FOR EXAMPLE, IT HAS BEEN ESTIMATED THAT ABOUT THREE QUARTERS OF ALL PURCHASES OF MEXICAN BORDER CITY RESIDENTS ARE MADE IN THE U.S.

3. THE RAPID GROWTH OF THE MEXICAN BORDER CITIES IS DUE
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PAGE 02 MEXICO 06745 071052Z

TO THEIR PROXIMITY TO THE U.S. THE TOWNS GREW AS TRANSIT POINTS FOR MEXICANS GOING TO THE U.S. UNDER THE "BRACERO" PROGRAM. THEY HAVE RELATIVELY LITTLE INDUSTRY AND ARE BASICALLY SERVICE-ORIENTED. THE U.S. PROVIDES MOST OF THE MANUFACTURED GOODS. THE BORDER CITIES PROVIDE SERVICES, ESPECIALLY RECREATION AND ENTERTAINMENT, AND THE PREPARATION AND SALE OF FOOD AND BEVERAGES.

4. FOLLOWING THE TERMINATION OF THE "BRACERO" PROGRAM IN 1964 THE MEXICAN GOVERNMENT ESTABLISHED THE BORDER INDUSTRY PROGRAM TO PROVIDE ALTERNATIVE EMPLOYMENT AND TAKE ADVANTAGE OF MEXICO'S CHEAPER LABOR. IN EFFECT, THIS PROGRAM PROVIDES FOR DUTY-FREE IMPORT OF GOODS WHICH ARE THEN PROCESSED AND EXPORTED BY BONDED ASSEMBLY PLANTS. MOST OF THESE PLANTS ARE OWNED BY U.S. FIRMS. THE GOODS EXPORTED - MOSTLY TO THE U.S. - ARE TAXED ONLY ON THE VALUE ADDED IN ACCORD WITH ITEMS 806:30 AND 807 OF THE U.S. TARIFF CODE. THE BORDER INDUSTRIES EMPLOYED APPROXIMATELY 70,000 WORKERS, MOSTLY WOMEN, AS OF SEPTEMBER, 1976. THERE WERE 408 IN-BOND PLANTS ALONG THE BORDER AS OF THIS DATE.

5. THE DEVALUATION OF THE PESO HAD A SIGNIFICANT IMPACT ON THE BORDER ECONOMY. SALES BY COMMERCIAL ESTABLISHMENTS ON THE U.S. SIDE OF THE BORDER DROPPED SHARPLY. ON THE OTHER HAND, SALES OF MEXICAN GOODS AND SERVICES HAVE PICKED UP IN TERMS OF PESOS. MEXICANS WITH PESO INCOME HAVE TRIED TO MAINTAIN THEIR INCOME IN TERMS OF DOLLARS. AS A RESULT PRICE INCREASES IN THE BORDER CITIES HAVE BEEN GREATER THAN IN THE INTERIOR OF THE COUNTRY. THIS HAS REDUCED THE BENEFITS SUCH AS GREATER SALES OF MEXICAN GOODS THAT THE DEVALUATION MIGHT BRING TO MEXICAN FIRMS ALONG THE BORDER. THOMPSON

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